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NORTHLAND OILS LIMITED

**Annual
Report
1968**

**CALGARY
ALBERTA
CANADA**

Report of the President

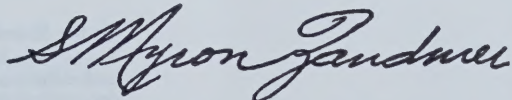
To the Shareholders
Northland Oils Limited

This Annual Report respecting your Company for the fiscal year ended May 31, 1968, is submitted to you on behalf of your Board of Directors. Your Company's Financial Statements as at May 31, 1968 together with the Auditors' Report, are included herein.

Your Company, in association with National Petroleum Corporation Limited and others, has recently arranged to acquire productive oil and gas properties in West Virginia (122 wells) upon acreage which has a large number of undrilled locations. We are now planning with our partners, to participate in the operation and further development of this property.

We have retained your Company's investment in the Common Stock of Permeator Corporation. The original cost of this purchase in 1962 was \$105,064, which investment had a market value of \$505,000 at our year end.

Respectfully submitted,

A handwritten signature in dark ink, reading "S. Myron Landman". The signature is written in a cursive, flowing style with a large initial "S" and a prominent "M".

President.

August 30th, 1968.
Calgary, Alberta.

Northland
(INCORPORATED UNDER
BALANCE SHEET
(with comparative figures)

A S S E T S

Current Assets:	1968	1967
Cash	\$ 318	\$ 363
Accounts receivable	489	919
Inventory of crude oil, at net realizable value	1,995	2,468
	<u>2,802</u>	<u>3,750</u>
Investments:		
Channel Oils Ltd. (note 1)		
Shares, at cost	500	500
Advances, less allowance of \$255,413 (nil in 1967) for loss	28,445	283,858
	<u>28,945</u>	<u>284,358</u>
20,000 shares of Permeator Corporation, at cost (quoted market value 1968, \$505,000; 1967, \$405,000)	105,064	105,064
Royalty interest, at cost	6,562	6,562
	<u>140,571</u>	<u>395,984</u>
Fixed Assets (note 2):		
Property, plant and equipment, at cost	983,551	976,333
Less accumulated amortization and depreciation	394,149	362,485
	<u>589,402</u>	<u>613,848</u>
Other Assets:		
Organization costs	8,434	8,434
	<u>\$741,209</u>	<u>\$1,022,016</u>

AUDITOR'S

To the Shareholders of Northland Oils Limited:

We have examined the balance sheet of Northland Oils Limited and deficit and source of application of funds for the year 1968, and accounting procedures and such tests of accounting records as we considered appropriate in the circumstances.

In our opinion these financial statements present fairly the financial position and the results of its operations and the source and application of funds generally accepted accounting principles applied on a basis of consistency.

Calgary, Alberta
July 30th, 1968.

ils Limited

THE LAWS OF ALBERTA)

— May 31, 1968

es at May 31, 1967)

LIABILITIES

Current Liabilities:	1968	1967
Accounts payable and accrued liabilities	\$ 21,691	\$ 12,336
Notes payable to National Petroleum Corporation Limited	37,859	33,724
	<u>59,550</u>	<u>46,060</u>

Shareholders' Equity

Capital Stock:		
Authorized		
5,500,000 share of 20c par value		
Issued		
4,608,590 shares	921,718	921,718
Contributed Surplus, premium on issue and on conversion of shares	460,629	460,629
	<u>1,382,347</u>	<u>1,382,347</u>
Deficit	(700,688)	(406,391)
	<u>681,659</u>	<u>975,956</u>

Approved on behalf of the Board:

S. MYRON ZANDMER, Director

GEORGE A. HARRIS, Director

<u>\$741,209</u>	<u>\$1,022,016</u>
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REPORT

imited as at May 31, 1968 and the statements of operations ended. Our examination included a general review of the other supporting evidence as we considered necessary in the

he financial position of the company as at May 31, 1968 of its funds for the year then ended, in accordance with istent with that of the preceding year.

HORNE, GUNN, HELLIWELL & CHRISTENSON,
hartered Accountants.

Northland Oils Limited

STATEMENT OF OPERATIONS AND DEFICIT

Year Ended May 31, 1968

(With comparative figures for 1967)

Income	1968	1967
Sale of oil and gas	\$ 28,674	\$ 28,622
Less royalties	4,816	4,696
	<u>23,858</u>	<u>23,926</u>
Expenses		
Well operating	24,577	20,987
Interest and exchange	2,702	2,153
Office and clerical	1,800	1,800
Salaries	—	3,675
General and administration	2,261	1,865
	<u>31,340</u>	<u>30,480</u>
	7,482	6,554
Amortization of leases and development (note 2)	23,769	25,789
Depreciation of plant and equipment (note 2)	7,633	7,338
Loss on sale of equipment	—	712
	<u>31,402</u>	<u>33,839</u>
NET LOSS FOR THE YEAR	38,884	40,393
Deficit at beginning of year	406,391	365,998
Provisions for loss on advances to Channel Oils Ltd. (note 1)	255,413	—
DEFICIT AT END OF YEAR	<u>\$700,688</u>	<u>\$406,391</u>

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED MAY 31, 1968

(With comparative figures for 1967)

Application of Funds	1968	1967
Operations		
Net loss for the year	\$ 38,884	\$ 40,393
Deduct items not involving a current outlay of funds		
Depreciation and amortization	31,402	33,127
Loss on sale of equipment	—	712
	<u>31,402</u>	<u>33,839</u>
	7,482	6,554
Additions to fixed assets	6,956	5,168
Advances to Channel Oils Ltd.	—	1,157
	<u>14,438</u>	<u>12,879</u>
Source of Funds		
Proceeds from sale of equipment	—	725
INCREASE IN WORKING CAPITAL DEFICIENCY	14,438	12,154
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	42,310	30,156
WORKING CAPITAL DEFICIENCY AT END OF YEAR	<u>\$ 56,748</u>	<u>\$ 42,310</u>

Northland Oils Limited

NOTES TO FINANCIAL STATEMENTS

Year Ended May 31, 1968

1. INVESTMENT IN CHANNEL OILS LTD.

The company owns 50% of the issued capital stock of Channel Oils Ltd. During the year the company recorded a provision for loss to reduce the advances to the underlying net asset value of the company's investment in Channel as reflected by that company's financial statements as at April 30, 1968.

2. FIXED ASSETS

		<u>1968</u>		<u>1967</u>
	Cost	Accumulated amortization and depreciation	Net	Net
Leases	\$154,882	\$ 54,421	\$100,461	\$103,298
Development	509,354	74,535	434,819	451,740
Plant and equipment	319,315	265,193	54,122	58,810
	<u>\$983,551</u>	<u>\$394,149</u>	<u>\$589,402</u>	<u>\$613,848</u>

Amortization of lease and development costs is provided on a full cost basis whereby a unit of production cost is determined by pro-rating all lease and development costs incurred against total recoverable reserves of crude oil discovered.

The company computes depreciation of plant and equipment on a straight line method based on its estimated useful life.

3. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

No such remuneration was paid in the current year.



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REPORT OF THE PRESIDENT

To the Shareholders of

NORTHLAND OILS LIMITED

The following news item was given to the press for immediate release on October 31, 1968:

"The Board of Directors of Northland Oils Limited, 209 Eighth Avenue Southwest, Calgary 2, Alberta, Canada, has approved corporate financing through the sale of \$99,000 principal amount of Convertible Debentures which will have attached share purchase warrants, the exercise of which will provide further net proceeds of \$165,000 to the Company's treasury.

This is a single private placement, for investment purposes. The proceeds of this financing will be used for the acquisition of oil and gas properties and the development thereof.

This proposed financing is subject to acceptance by the Toronto Stock Exchange, the Calgary Stock Exchange and any regulatory body having jurisdiction respecting the sale of the Company's securities."

This interim report is to inform you that the Company has now been advised by the various regulatory bodies set forth above that we may now proceed with this financing. The Convertible Debenture is being purchased by the Hollandsche Bank - Unie N.V., of Amsterdam, The Netherlands, and may be converted into 330,000 shares of the Company's Capital Stock after June 5, 1969, and thereafter the share purchase warrant may be exercised to purchase an additional 330,000 shares of the Company's Capital Stock for \$165,000.00 on or before June 5, 1970.

There should be \$264,000.00 of funds coming to our Company by virtue of this financing which will give us sufficient working capital for the development of our oil and gas properties.

You were advised in our last Annual Letter of August 30, 1968, that this Company has an interest in 100 oil wells and 22 gas wells situated on 5,908 acres in Kanawha County, West Virginia, which purchase was closed on September 30, 1968. NORTHLAND OILS LIMITED has a 10% working interest in these wells and in the lease through its 50% ownership in CHANNEL OILS LTD. We anticipate reworking a number of these producing wells with PERMAFLOW, a chemical developed for increasing production of oil and gas wells. This chemical was developed by PERMEATOR CORPORATION, a subsidiary of NATIONAL PETROLEUM CORPORATION LIMITED. PERMAFLOW should be a valuable method in increasing the production of these wells. There are also 75 undrilled locations on this land which can be drilled.

We wish to announce that over 40 additional leases have now been acquired in Logan and Boone Counties of West Virginia by NATIONAL OIL FIELD SERVICE LTD., a subsidiary of NATIONAL PETROLEUM CORPORATION LIMITED. NATIONAL OIL FIELD SERVICE LTD., PERMEATOR CORPORATION, CHANNEL OILS LTD., and THE WOLF CORPORATION are joining in this development in which NORTHLAND OILS LIMITED has a similar 10% working interest. These leases contain in excess of 225 locations, a very large percentage of which we consider to be proven for commercial gas production.

Of course, it is the intention of the developing Companies to use PERMEATOR completions and PERMAFLOW as the most modern completion techniques available.

It is our plan to start two wells at once and to rapidly accelerate the pace of drilling until we will have developed all of our proven drill sites.

For your information, your Corporation has retained its 20,000 shares of PERMEATOR CORPORATION stock, which stock is now selling above \$40.00 U. S. per share.

Respectfully submitted,

S. Myron Zandmer
President

DATED: December 5, 1968

This report is submitted for the general information of existing shareholders exclusively and is not intended to induce the purchase or sale of the Company's shares.

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**NORTHLAND OILS
LIMITED**

**INTERIM REPORT
NOVEMBER 30, 1968**

NORTHLAND OILS LIMITED

COMPARATIVE STATEMENT OF OPERATIONS Six Months Ended November 30

	<u>1968</u>	<u>1967</u>
Income		
Sale of Oil and Gas	\$15,259.72	\$14,534.92
Less Royalties	2,465.10	2,413.16
	<u>\$12,794.62</u>	<u>\$12,121.76</u>
Expenses		
Well Operating	\$13,311.94	\$12,649.78
Interest and Exchange	1,785.54	1,201.50
Office and Clerical	900.00	900.00
General and Administrative	1,100.61	2,148.67
	<u>\$17,098.09</u>	<u>\$16,899.95</u>
Net Loss before undernoted charges	<u>\$ 4,303.47</u>	<u>\$ 4,778.19</u>
Allowance for Depreciation	\$ 2,761.72	\$ 2,983.25
Amortization of Lease and Development Costs	11,953.76	12,289.72
	<u>\$14,715.48</u>	<u>\$15,272.97</u>
Net Loss for the period	<u><u>\$19,018.95</u></u>	<u><u>\$20,051.16</u></u>

COMPARATIVE STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Six Months Ended November 30

	<u>1968</u>	<u>1967</u>
Source of Funds		
Decrease in Working Capital	\$21,671.01	\$ 6,640.79
Allowance for Depreciation	14,715.48	15,272.97
	<u>\$36,386.49</u>	<u>\$21,913.76</u>
Application of Funds		
Net Loss	\$19,018.95	\$20,051.16
Addition to Fixed Assets	3,262.77	1,862.60
Advances to Channel Oils Ltd.	14,104.77	—
	<u>\$36,386.49</u>	<u>\$21,913.76</u>

The amounts stated herein are subject to independent audit and adjustment of certain items ordinarily calculated on an annual basis.

TO THE SHAREHOLDERS:

Please be advised that in reference to the drilling program on the properties in Logan and Boone Counties, West Virginia in which we participate, as outlined in our letter report to you dated December 5, 1968, two wells have been started and the first well is now drilling in the upper gas zone.

We have already encountered gas in the top of the upper gas zone in the first well, and drilling is proceeding through the zone and to the next lower gas horizon with the idea of making a dual completion. The second well is drilling ahead toward the upper gas zone.

You will be kept informed as results of this drilling program become available.

Respectfully submitted,

Calgary, Alberta, Canada
January 13, 1969

S. MYRON ZANDMER
President